Report to the

House of Representatives Appropriations Subcommittee on Health and Human Services, Senate Appropriations Committee on Health and Human Services, the Fiscal Research Division and the Joint Legislative Oversight Committee on Mental Health, Developmental Disabilities and Substance Abuse Services

Mental Health Changes on the Under-and-Over Expenditure of State Funds: Issues and Recommended Solutions

Session Law 2008-107
House Bill 2436
Section 10.15(e)

January 1, 2009

Submitted by:

North Carolina Department of Health and Human Services
North Carolina Division of Mental Health, Developmental Disabilities and Substance Abuse Services

Under-and-Over Expenditure of State Funds
Issues and Recommended Solutions
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Scope of this report:

The North Carolina Division of Mental Health, Developmental Disabilities and Substance Abuse Services (DMH/DD/SAS) received assistance from the Provider Action Agenda Committee (PAAC) in response to the reporting request required by Session Law 2008-107, Section 10.15.(e). The PAAC is a workgroup comprised of Local Management Entity (LME) and provider representatives.

Session Law 2008-107, Section 10.15. (e) is outlined as follows:

The Department of Health and Human Services shall consult with LMEs and service providers to determine why there have been under-and over-expenditure of State service dollars by LMEs and shall take the action necessary to address the problem. In making its determination, the Department shall work with LMEs and providers. Not later than January 1, 2009, the Department shall report to the House of Representatives Appropriations Subcommittee on Health and Human Services, the Senate Appropriations Committee on Health and Human Services, the Fiscal Research Division, and the Joint Legislative Oversight Committee on Mental Health, Developmental Disabilities and Substance Abuse Services on actions taken to address the problem of LME under- and over-expenditure of service dollars. The report shall include legislative action needed to address the problem.

The NC Division of Mental of Health, Developmental Disabilities and Substance Abuse Services response in consultation with PAAC:

The difficulty in expending state funds for community-based mental health, developmental disability, and substance abuse services is related to a variety of administrative, fiscal, and programmatic challenges including:

- The timing of legislative appropriations, state allocations to LMEs, LME provider contract completions, and state payment rules that require utilization of appropriated funds within a single state fiscal year;
- The capacity of LMEs to effectively screen, contract and monitor a continuum of providers, to efficiently authorize services and manage the utilization of resources, and to pay for such services in a timely and dependable fashion;
- The level of management efficiency and staff productivity required of providers to provide an adequate volume of consumer services for contracted funds and to appropriately submit clean claims for payment to the LMEs in a timely fashion;
- The design of Integrated Payment and Reporting System (IPRS) to direct the use and tracking of state and federal funds for the most needy consumers, within state mandated target populations and federal requirements, and to allow the

measurement of legislatively mandated program performance and consumer outcome measures for systems accountability.

Proposed Solutions to Address the Under or Over Expenditure of State Service Funds:

The following solutions will improve funding efficiency during the fiscal period and improve the quality of service to consumers.

1. Allow two years for the expenditure of expansion dollars for new programs or services. Specifically, any funds designated for new services or programs should not revert to the general fund for two years; thus, eliminating any redirection of these funds in the second year of the biennium. Expansion dollars for new programs appropriated in the second year of the biennium should be allowed to be carried over for use in the next fiscal year. This action would address the issue that newly appropriated funds may be delayed in reaching the provider to establish a new or expanded service. The service takes time to emerge; therefore, utilization data appears falsely low at the end of the fiscal year causing the possible reduction in funding for the next fiscal year. This places the provider with an unacceptable level of risk.

2. Identify the services or geographic areas where program-based contracts would benefit the population in need of mh/dd/sa services. Encourage LMEs to use their current authority to establish state rates and performance-based contracts which address program and consumer outcome measures of quality and accountability based on objective claims data. Performance must be tracked uniformly across LMEs and providers in accordance with state and nationally established indicators of program quality and achievement of consumer outcomes. The contracts should allow extensions or re-bids based on provider performance. Encourage multi-year contracts containing annual funding parameters and 60/90 day termination clauses. Performance bonds and similar instruments could be used to ensure that LMEs are not exposed to inordinate fiscal or performance risk. This would allow much greater flexibility in service provision while giving providers the stability and incentive they need to provide state-funded services.

3. Permit the intra-year and inter-year carry-over of unexpended funds by creating an "Incurred but Not Reported" (IBNR) category for funds. This would allow LMEs and providers to approach and work through the fiscal year end in a way that promotes consistency of services. Services provided in May and June could be billed using normal protocols, and the state funds used to pay for those services would be reconciled to the correct fiscal year. Currently services are delivered and billed by providers in an accrual-based process, but state fiscal policies mandate a cash-based system at the end of the fiscal year.

4. Implement universally agreed upon technological tools like the 835/837(HIPPA Compliant Professional & Institutional Claims transactions) transaction sets, and the application of a standard electronic medical record to establish efficient and simplified methods of doing the business and clinical aspects of related services. Additionally, require that providers submit bills to the LME for state-funded services within 60 days of the occurrence of the service. Bills not submitted within this time period would not be paid. This would require that LME authorization and re-authorization processes be subject to rigid time-lines for completion. This solution addresses the disincentives that exist for providers of state-funded services, including nonstandard authorization processes, and inconsistent payment and reconciliation processes among LMEs. Fee for service activities are authorized in discrete units and for short durations. Authorization processes should manage services to "high risk, high cost" consumers.

5. Create incentives for providers to engage in state funded services by allowing more flexible authorization processes based on the needs of the individual being served. Blanket authorizations based on predetermined benefit packages, within monthly or annual fiscal limits, would allow for effective oversight by the LME while freeing the provider and LME from redundant administrative burdens.

6. Create a formal mid-year process of inter-LME reallocation of funds, possibly by creating a Division pool for management of unused funds at the state level. This would be possible with the implementation of #4 above, and would allow state funding to follow need and actual utilization more closely.

7. The Provider Action Agenda Committee strongly recommends that state appropriated funds that are unexpended at the end of a fiscal period revert to the Mental Health Trust Fund after the conclusion of a reasonable carry-over period and process. The DMH/DD/SAS would need to publish clear policies for how funds would be dispersed from the Trust Fund, and those policies should put emphasis on acute community-based service needs.